

## Message Text

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PAGE 01 PARIS 10933 01 OF 02 040711Z  
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08  
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OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00  
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O 031549Z APR 78  
FM AMEMBASSY PARIS  
TO SECSTATE WASHDC IMMEDIATE 9500

LIMITED OFFICIAL USE SECTION 01 OF 02 PARIS 10933

USOECD

E.O. 11652: N/A  
TAGS; EGEN, OECD  
SUBJECT; XCSS APRIL 14: EMERGENCE OF NEWLY  
INDUSTRIALIZING COUNTRIES

REF: PARIS 10693

1. FOLLOWING SUMMARIZES SECRETARIAT PAPER ON EMERGENCE  
OF NEWLY INDUSTRIALIZING COUNTRIES FOR AGENDA ITEM 3  
OF APRIL 14 XCSS. PARAS 2 AND 3 ARE TEXT OF PAPER'S  
OWN SUMMARY, AND PARAS 4-6 ARE MISSION SUMMARY OF MAIN  
POINTS OF REST OF DOCUMENT.

2. THE SECRETARIAT STUDY SHOWS THAT, WHILE A  
SUCCESSION OF NEWLY INDUSTRIALIZING COUNTRIES HAVE  
BEEN INCREASING THEIR SHARE IN OECD MARKETS,  
PARTICULARLY IN CERTAIN PRODUCT LINES, IMPORTS FROM  
THEM REMAIN SMALL IN RELATION TO OVERALL LEVELS OF  
TRADE AND ECONOMIC ACTIVITY. MOREOVER, EXPORTS OF  
MANUFACTURES FROM THE MATURE INDUSTRIAL COUNTRIES

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PAGE 02 PARIS 10933 01 OF 02 040711Z

HAVE BEEN INCREASING SUBSTANTIALLY FASTER, IN  
ABSOLUTE TERMS, THAN IMPORTS. IN 1976-77, HOWEVER,  
IMPORTS ACCELERATED AND EXPORTS SLOWED DOWN. WHILE  
THIS WAS PARTLY CYCLICAL, IT MAY ALSO POINT TO SOME  
ACCELERATION IN THE PROCESS OF STRUCTURAL CHANGE IN  
THE WORLD ECONOMY. IN GENERAL, HOWEVER, THE  
DIFFICULTIES ENCOUNTERED BY THE MATURE INDUSTRIAL

COUNTRIES IN ADAPTING TO THESE CHANGES HAVE BEEN MAINLY CAUSED BY THE INFLATIONARY RECESSION AND SLOW RECOVERY AND THE PERSISTENCE OF BALANCE OF PAYMENTS DISEQUILIBRIUM BETWEEN THEM. BEYOND THIS, THE KEY ISSUE FOR POLICY IS HOW TO FACILITATE AND ENCOURAGE INDUSTRIAL CHANGE AT A SOCIALLY ACCEPTABLE RATE (SECTION II). FOR THE NEWLY INDUSTRIALIZING COUNTRIES THE ISSUE IS HOW TO TRANSLATE RISING PRODUCTIVITY INTO INCREASED ECONOMIC WELFARE AT HOME, AT A RATE FAST ENOUGH TO AVOID THE EMERGENCE OF A CHRONIC BALANCE OF PAYMENTS SURPLUS, BUT NOT SO FAST AS TO UNDERMINE PRODUCTIVITY GROWTH AND INTERNAL AND EXTERNAL FINANCIAL STABILITY. THIS RAISES QUESTIONS CONCERNING IMPORT LIBERALIZATION, EXCHANGE-RATE POLICY AND DEVELOPMENT POLICY MORE GENERALLY (SECTION III). FINALLY, BOTH THE MATURE AND NEWLY INDUSTRIALIZING COUNTRIES HAVE A COMMON INTEREST IN MAINTAINING AN OPEN TRADING SYSTEM WHILE AVOIDING THE EMERGENCE OF EXCESS MANUFACTURING CAPACITY IN CERTAIN SECTORS AND COUNTRIES (SECTION IV).

3. THE MAIN CONCLUSION TO BE DRAWN FROM THIS STUDY IS THAT THE EMERGENCE OF NEWLY INDUSTRIALIZING COUNTRIES SHOULD CONTINUE TO BE OF BENEFIT TO ALL CONCERNED, SO LONG AS:

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PAGE 03 PARIS 10933 01 OF 02 040711Z

- THE MATURE INDUSTRIAL COUNTRIES ARE SUCCESSFUL WITH POLICIES DESIGNED TO GET BACK TO NON-INFLATIONARY GROWTH, REDUCE PAYMENTS DISEQUILIBRIUM BETWEEN THEM AND FACILITATE INDUSTRIAL CHANGE;
- THE NEWLY INDUSTRIALIZING COUNTRIES ARE PREPARED TO PROGRESSIVELY LIBERALIZE THEIR OWN TRADE AND SEE TO IT THAT RISING PRODUCTIVITY IS TRANSLATED INTO RISING DOMESTIC DEMAND INTERNALLY AND A RISING REAL EXCHANGE RATE EXTERNALLY;
- BOTH PARTIES ARE PREPARED TO COOPERATE TOGETHER TO MAINTAIN AN OPEN TRADING SYSTEM AND AVOID THE EMERGENCE OF EXCESS CAPACITY IN PARTICULAR SECTORS OR COUNTRIES.

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PAGE 01 PARIS 10933 02 OF 02 040705Z  
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4. PAPER'S SECTION ON THE NEED FOR POSITIVE  
ADJUSTMENT POLICIES IN DEVELOPED COUNTRIES STRESSES  
FOLLOWING POINTS:

- ACCEPTANCE BY DEVELOPED COUNTRIES OF GRADUAL  
REDUCTION AND RESTRUCTURING OF HIGHLY  
LABOR-INTENSIVE INDUSTRIES WHERE LDC'S HAVE  
CLEAR COMPARATIVE ADVANTAGE.
- PHASING OUT EMPLOYMENT SUPPORT PROGRAMS WHICH  
LOCK LABOR INTO DECLINING ACTIVITIES AS THE  
RECOVERY PROCEEDS (OR REPLACING THEM BY  
SCHEMES TO ENCOURAGE HIRING IN EXPANDING  
SECTORS)
- REDUCING THE ADVERSE EFFECTS ON DC LABOR  
INTENSIVE INDUSTRIES OF SOCIAL SECURITY  
PROGRAMS FINANCED BY TAXES ON EMPLOYMENT

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PAGE 02 PARIS 10933 02 OF 02 040705Z

- AIMING POSITIVE ADJUSTMENT POLICIES AT  
ENCOURAGING STRUCTURAL CHANGE INDICATED BY

COMPARATIVE ADVANTAGE (TOWARD HIGH TECHNOLOGY, SKILL, AND CAPITAL UTILIZATION), RATHER THAN DETAILED INTERFERENCE IN THE ALLOCATION OF RESOURCES AS BETWEEN INDUSTRIES AND PRODUCTS.

5. WITH RESPECT TO NEWLY INDUSTRIALIZING COUNTRIES, PAPER IDENTIFIES AS BASIC ISSUE WHETHER THESE COUNTRIES CAN MOVE TOWARD MORE DOMESTIC ORIENTED GROWTH. SPECIFIC PROPOSALS ARE

A) TRADE: REDUCE LDC TRADE BARRIERS TO IMPORTS, PHASE OUT EXPORT SUBSIDIES, AND INCREASE INTRA-LDC TRADE.

B) EXCHANGE RATES: AS REAL INCOMES AND PRODUCTIVITY INCREASE, LDC EXCHANGE RATES SHOULD APPRECIATE SIGNIFICANTLY IN REAL TERMS. FAILURE TO DO THIS COULD FUEL PRESSURES FOR INTERNATIONAL MINIMUM WAGE STANDARDS.

C) OTHER POLICIES: AS DEVELOPMENT PROCEEDS, LDC'S SHOULD STABILIZE OR INCREASE THE SHARE OF CONSUMPTION IN GNP, RAISE SHARE OF URBAN/SOCIAL INFRASTRUCTURE IN INVESTMENT, AND REDUCE INEQUALITY OF INCOME DISTRIBUTION.

6. FINAL PART OF PAPER IDENTIFIES FOLLOWING ISSUES FOR DC/LDC COOPERATION:

A) TRADE: DC COMMITMENT TO HOLD IN CHECK AND REVERSE LIMITED OFFICIAL USE

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PAGE 03 PARIS 10933 02 OF 02 040705Z

THE RECENT RISE IN PROTECTIONISM COULD BE LINKED WITH INTERNATIONALLY AGREED PROGRAMS FOR PROGRESSIVE LIBERALIZATION OF LDC TRADE POLICY AS DEVELOPMENT PROCEEDS.

B) INVESTMENT: DC'S AND LDC'S COMMON INTEREST IN AVOIDING SUDDEN EMERGENCE OF EXCESS CAPACITY IN PARTICULAR PRODUCTS ARGUES FOR SYSTEMATIC EXCHANGE OF INFORMATION ON INVESTMENT PLANS. IN ADDITION, EFFECT OF EXPORT CREDITS ON SUBSIDIZING ESTABLISHMENT OF CAPACITY IN LDC'S SHOULD BE STUDIED.

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